Report of the

Director-General of Forests

for the year ended
31 March 1986

Presented to the House of Representatives Pursuant to Section 68 of the Forests Act 1949

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Minister of Forests

I have the honour to present my report for the year ended 31 March 1986.

A. KIRKLAND, Director-General of Forests.

Further information on this report is available from:

The New Zealand Forest Service,
Head Office,
Private Bag,
Wellington.

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DIRECTOR-GENERAL'S COMMENT

Future Directions for the Forest Service

During the year the Government decided the future direction of the Forest Service. The department as such will go out of existence on 31 March 1987. The legacy of the lands, forests and other physical resources and of the skills and experience vested in its people will pass to one of three new organisations.

On 16 September 1985 the Government announced a number of decisions on environmental administration — the culmination of a half year long review. Those directly affecting the New Zealand Forest Service were the intention of:

— forming a new Department of Conservation which would administer, inter alia, forest parks and other multiple use State forest areas not used for wood production

— establishing a commercial forestry agency or corporation.

In October 1985 two options were discussed with the Government on the proposed commercial forestry agency. The first was essentially a conventional department containing both a commercial and sectoral servicing arm. It was concluded that to satisfy the requirements for greater "transparency" and performance-oriented accountability a more rigorous distinction would need to be made in such a department between commercial and non-commercial roles. Accordingly a single, streamlined commercial forestry division was envisaged. It was also recognised that some aspects of sectoral work, for example advisory services, might become commercialised in pursuit of user-pays principles and be more appropriately placed within the commercial arm. Under this "integrated" option it was clear that the Government itself would retain direct control of the broad policies for commercial activities. The ability to obtain a fair return to the taxpayer from the State's forestry investment would rely, as it had, on periodically expressing the authority of Government rather than solely on competition in the market place. The less directly competitive position and the expectation that the Crown would act in all matters in the wider public interest would not, it was suggested, preclude the association of commercial and sectoral servicing functions in a single State forestry agency. The main disadvantages of the option were considered to be possible restrictions on commercial efficiency and a perception of conflict of interest between the two major roles with consequent requirements for further change at a later stage.

The second option, which was the one chosen by the Government, was to set up a fully commercial forestry corporation separated from sectoral servicing functions. It was recognised that a fully commercial State enterprise would have to compete in the forestry sector and in doing so would substantially change the character of the sector. The advantages were seen to be the freedom to make commercial decisions without normal departmental constraints, clear and simple

objectives, more straightforward accountability, and the challenge of a greater direct role in the marketing of the expanding State resources in the 1990s.

The decision on 25 November 1985 to form a fully commercial corporation left open the question of the appropriate organisation for the sectoral and regulatory services including research. It was confirmed by the Government in early December that these services should be kept together in a single agency but views were divided on whether this should stand alone or form part of the Ministry of Agriculture and Fisheries. It was agreed that the alternatives would be discussed with clients and reported back to the Government. Strong support for a separate Ministry of Forestry was evident in these discussions.

Production and Trade

Production

Commodity	*Year Ended 31/3/85*	*Year Ended 31/3/84*	*Year Ended 31/3/83*	*Average of 5 years to 31/3/85*
Removal of wood from NZ forests (Roundwood) (000 m^3)	9 626	9 335	9 627	9 759
Sawn timber (000 m^3)	2 306	2 096	2 136	2 198
Exotic	2 165	1 959	1 986	2 045
Indigenous	141	136	150	153
Pulp (000 tonnes)	1 145	1 062	1 042	1 118
Paper and paperboard (000 tonnes)	770	694	671	716
Veneer (000 m^3)	77	68	85	82
Plywood	55	48	55	55
Particleboard	188	158	140	159
Fibreboard	146	142	121	134

Trade

The latest statistics for trade in forest products are for the year ended 31 December 1985. The table below gives that data with comparisons.

Commodity	*Year Ended 31/12/85*	*Year Ended 31/12/84*	*Year Ended 31/12/83*	*Average of 5 years to 31/12/85*
Exports				
Total value (million $)	766	723	578	628
Logs and poles				
Volume (000 m^3)	406	371	528	476
Value (million $)	43	30	38	36
Sawn timber				
Volume (000 m^3)	512	458	459	493
Value (million $)	123	110	83	94
Pulp				
Volume (000 tonnes)	465	460	473	466
Value (million $)	207	200	171	180
Paper and paperboard				
Volume (000 tonnes)	227	298	282	281
Value (million $)	189	218	161	180

Commodity	Year Ended 31/12/85	Year Ended 31/12/84	Year Ended 31/12/83	Average of 5 years to 31/12/85
Imports				
Total value (million $)	292	240	154	193
Sawn timber				
Volume (000 tonnes)	41	38	25	33
Value (million $)	26	25	15	19
Paper and paperboard				
Volume (000 tonnes)	101	74	58	64
Value (million $)	209	164	103	128

Notes:
The proportion of exports by value were Australia (44 percent), Japan (25 percent) and others (31 percent).

Finance

Parliament appropriated $336.967 million to Vote: Forest Service for the year ended 31 March 1986. Actual gross expenditure was $333.939 million. Receipts for the year were $196.110 million, $27.716 million more than estimated. Net expenditure (receipts less payments) totalled $137.829 million which is $30.744 million less than estimated.

The vote provides only for cash receipts and payments. Financial Statements are prepared on an accrual accounting basis and published as Appendix 8 of this report. These statements used to relate to years ending on 31 December. The difference between the Parliamentary vote appropriation year and the departmental accrual accounting year caused confusion in evaluating the performance of the Forest Service. Following discussions with Treasury the Minister of Finance approved a change in the department's accrual accounting year to 31 March to provide common financial and accrual accounting years as the prime basis for both management and financial reporting. The Financial Statements in Appendix 8 are, as a consequence of the change in balance date, for the 15 month period 1 January 1985 to 31 March 1986.

1. FOREST MANAGEMENT, DEPUTY DIRECTOR GENERAL — A. K. FAMILTON

PRODUCTION FORESTRY — GENERAL

POLICY

Planting Programme

Changes in Government policy requiring the Forest Service to become more commercial in its operations together with shortages of suitable land resulted in a drop in new planting to 17 300 hectares, a drop of 12 percent over the previous year's achievement. Restocking, at 9077 hectares, was not affected. An economic analysis of the 1986–87 planting programme was completed and served as the basis of financial allocation for new planting and restocking. As a result of

that analysis new planting planned for 1986–87 is expected to drop by around 30 percent. The economic model will be further refined to assess 1987–88 planting proposals.

Nursery Production

A reduced planting programme and the need for increased management efficiency resulted in a nursery review being undertaken. The findings are currently under consideration. As a result of reduced treestock requirements the Forest Service can now supply all local requirements for genetically improved seed orchard seed and the surplus will be exported to Australia in 1986.

Harvesting and Marketing Strategy

The Draft Harvesting and Marketing Strategy for State Forest Plantations was officially launched by the Minister of Forests on 15 August 1985 and was immediately followed up with a series of regional presentations throughout New Zealand to all interested parties. The draft strategy defined the extent and quality of the significant State wood resources coming on stream up to the end of this century, set out proposals for their orderly marketing and harvesting, and also provided industry, local authorities and other interested parties with schedules of State wood availability by time, location, quality and quantity. Comments and suggestions for changes to the draft strategy were sought from industry and the response was appreciated.

PERFORMANCE

The following tables indicate the performance achieved and cost:

Establishment and Management

Direct expenditure on the establishment and silviculture of young forests was close to $70 million with operations covering 237 000 hectares.

	Financial Programme ($000)			*Physical Programme (ha)*			*Direct Cost per hectare ($)*		
Operational Category	*Budget*	*Actual*	*%*	*Budget*	*Actual*	*%*	*Budget*	*Actual*	*%*
Preparation for new planting	5,850.7	4,535.6	78	28,013	20,741	74	206	219	106
Preparation for restocking	2,612.8	2,357.8	90	13,527	14,478	107	193	163	84
New planting	4,251.7	4,652.8	109	19,421	17,300	89	219	269	123
Restocking	1,944.5	2,073.9	107	9,703	9,077	94	200	228	114
Ancillary establishment	5,072.2	4,915.1	97	36,350	27,342	75	160	180	113
Pruning	23,529.2	25,040.9	106	93,247	85,212	91	252	294	117
Thinning	9,689.8	8,530.2	88	67,698	51,049	75	143	167	117
Fertilising	2,464.3	2,414.6	98	15,275	11,719	77	161	206	128
Sub total	55,415.2	54,520.9	98						
Other	16,102.8	14,829.8	92						
Total	71,518.1	69,350.7	97	283,234	236,918	84			

* Other refers to expenditure for which there is no clearly defined physical programme, covering protection, research, nurseries etc.

Harvesting and Marketing

Harvesting and marketing operations provided a revenue of $114 million from a direct expenditure of $38 million, which represented a realisation of 95 percent of budgeted volume.

Category	Budget	$/m³	Actual	$/m³	% Actual Budget
Volume (000 m³)	5224.2		4791.6		92
Expenditure ($000)	39,785.8	7.62	38,054.2	7.94	96
Revenue ($000)	104,721.0	20.05	114,450.1	23.89	109
Net Revenue ($000)	64,935.2	12.43	76,395.9	15.94	118

Land Purchase

A policy of only purchasing land on which a satisfactory economic return could be expected resulted in the purchase of 26 properties at a total cost of $2.9 million. These purchases were mainly in Otago, South Canterbury, Marlborough, Wanganui, Hawke's Bay, Waikato and King Country. In addition 559 hectares were purchased for $295,268 for environmental purposes. Purchases for production purposes were achieved at prices significantly below the existing Government valuation. This resulted in a deliberate underspending of the funds voted for land purchase.

FIRE CONTROL

An unseasonal dry period over much of the South Island was followed by wet conditions during the summer. Forest Service fire fighters attended 130 accidental fires in and near State forest and, as a result of these efforts, only 80 hectares of exotic forest and 1200 hectares of other vegetation were burnt.

T. R. CUTLER, Director, Forest Management.

PRODUCTION FORESTRY — MARKETING

Price Reviews

A new pricing policy for State plantation timber was announced by the Government in November 1984 which included a two-stage implementation process. The first stage came into effect from 1 April 1985. It was considered by some clients that the policy unilaterally abrogated existing contractual arrangements. However, for several large sales, decisions had already been taken to implement price reviews from 1 April 1985 having regard to prevailing market values. At the time of reporting, long term sale prices, other than those of the Tasman Pulp and Paper Company, and sales to Carter Holt Industries Ltd in the Auckland area, have been negotiated in line with the new policy requirement to achieve current market values.

In addition to the re-negotiation of long-term sale prices, several requests for special price reviews were received during the year. Virtually all were related to the export activities of the applicant, and the impact on company profitability of the strengthening New Zealand

dollar. All requests were declined on the grounds that the decision to float the New Zealand dollar was a matter of Government policy, and that it would be inconsistent for a Government department to take any action on wood pricing which could be in conflict with this action.

Implications of Harvesting and Marketing Strategy

The harvesting and marketing strategy (HMS) has identified the State resource likely to be available to maintain and increase the volume of wood for local processing or log exports. It was the intention that the department's export strategy be re-evaluated following industry's reaction to the HMS. Minor species in locations such as Nelson and South East Otago will probably be harvested by the early 1990s and the most obvious outlet for such wood will be export markets. Similarly, investigations are under way to assess the viability of early harvesting of some areas of heavily stocked radiata stands that have had little or no silvicultural treatment. A proportion of this resource is also likely to be exported.

Beech Sale

In December 1984 proposals were invited for the utilisation of a minimum annual quantity of 150 000 cubic metres of beech industrial wood material in the Inangahua district, including the recovery of all suitable sawlogs. Two proposals were received for utilising the total volume offered, and a third for sawlog processing only. The sale was to be for 5 years with a right of renewal for a further 5 years. The principal proposers expressed concern over future indigenous forest management policies and security of resources arising from the restructuring of environmental administration and sought clarification from the Government.

This resulted in the Minister of Forests deciding to freeze the proposed long term sale in December 1985, until the respective responsibilities of the new Department of Conservation and Forestry Corporation become more clearly identified. In the meantime the Department has negotiated a 1-year sale of 50 000 cubic metres of beech chip wood with Nelson Pine Forest Ltd. The wood is from forests already being logged for podocarps in the Inangahua district and represents a rationalisation of indigenous sales in the area.

However, difficulties in meeting existing indigenous sawlog commitments have also arisen when areas zoned for timber production have had to be abandoned following environmental pressure to have logging halted while reserve proposals are examined. This has occurred after considerable finance has already been spent (mainly on roading access) and cannot be recovered. The outcome is increased costs and decreased returns from some indigenous activities.

Marketing Training

An in-house marketing workshop was convened in Wellington in August, 1985. The main themes of the workshop were sales administration and customer relations. Industry representatives attended and addressed specific sessions. One of the major outcomes of the workshop was the identification of training needs for business and harvest management within the marketing function of the department. As a result a course entitled 'Marketing Forest Produce Profitably', began at the year's end under the direction of the Central Institute of Technology at Heretaunga, as an intensive 2-week programme for senior staff of the department. Most of the staff involved with the harvesting and marketing function will need to attend this type of course in the near future.

Indigenous Timber Production

At the time of reporting, Government is in the process of putting together a package of decisions on West Coast land use and timber supply issues. The package includes proposals for implementing the Government's policy to reduce the indigenous timber supply levels within the Buller region to a sustained yield level. The current annual sales commitment in the Buller region of 24 696 cubic metres would be drastically reduced, with resultant closures. Elsewhere on the West Coast the switch to a sustained yield timber supply regime will not occur until existing contracts are completed in 1990.

The revenue from indigenous timber sales has increased 20 percent as a result of changes to the methodology used in calculating residual value stumpages introduced in April 1985. Further refinements are being considered at present.

R. F. COOPER, Director, Marketing.

ENVIRONMENTAL FORESTRY

Recreation

The Tongariro Forest Park in the central North Island was approved in principle in April 1985, and a new forest park embracing 14 State forests in western Southland, tentatively called Takitimu Forest Park, was proposed during the year. However, the gazettal of these two forest parks has been delayed until the allocation of land to the new Crown land management agencies has been decided.

The Recreation Operations Planning System (ROPS) has been introduced in selected forest parks throughout the country. ROPS introduces a systematic approach to recreation planning. The manuals prepared for Westland Conservancy won the New Zealand Timber Award and the Landscaping Category Award for 1985, presented by the New Zealand Timber Industry Federation.

In association with ROPS, draft recreation strategies have been prepared for the plantation forests at Woodhill and Naseby and, on a regional level, for Northland and Westland.

In February 1986 a new information centre was opened at Motueka. This primarily serves the users of North-West Nelson State Forest Park, but also provides information on the plantation forests around Motueka. The centre is staffed during normal work hours and during peak holiday periods.

Summer programmes have been run annually in many forests around the country since 1980, and are organised in conjunction with the Department of Lands and Survey and some regional authorities. Various programmes now cover 30 locations. Charges were introduced to cover transportation, the major cost of the programmes. Initial indications are that participation in the programmes has declined slightly from the 1984–85 level, but the quality and variety of the activities attracts people of all ages and interests.

Map guides for the Ruahine, Craigieburn and Mt Richmond Forest Parks were produced during the year. The Ruahine Forest Park map guide won the British Cartographic Society's Bartholomew Award for excellence in small scale thematic cartography. A handbook was also produced for the Catlins Forest Park.

Waiterere State Forest held open days during the weekend of October 5 and 6, 1985. Static displays and demonstrations of most aspects of production forest management were prepared. The attendance at the open days was far higher than expected.

A 10-year programme to promote Arbor Day has begun. It is jointly funded and administered by the Forest Service and the Commission for the Environment. The ongoing theme of the programme is "Community Forests and Woodlands".

The year has seen a greatly increased demand from commercial recreation enterprises to operate on State forest land. The administration of such concessions is becoming a major function in recreation management in some parts of the country.The application of the user-pays policy to set appropriate charges for concessionaires has required considerable attention.

Historic Resource Management

Historic research and site inventory reports were completed for Coromandel Forest Park, the eastern Kaweka Range, Kuripapango, North Bank (Mt Richmond Forest Park) and the Longwood Range. A development prescription was prepared for the Rolling River goldfield historic area (North-West Nelson Forest Park) and, in Westland, preservation and interpretation projects at Waiuta and Charming Creek are near completion. A national historic resource management strategy is being prepared and two related research projects have been completed.

Wild Animal Control

The market value of wild animals and their by-products continues to play a dominant role in determining commercial hunting pressures on

wild animal populations. For most of the year the demand for deer and goats for farming was buoyed up by the very high prices being paid. However, the proposed new tax system on farming announced by the Minister of Finance on 12 December 1985 reduced applications for deer farm licences from an average of 59 a month for the period from August to November to an average of 13 a month for the last 4 months of the year. Some deer auctions were cancelled and the price of deer fell. Some helicopter operators ceased catching deer as their returns did not cover their operating costs. Those holding recently captured deer face the prospect of selling at a loss. Goat capture operations and goat farmers have been similarly affected.

Live capture of deer and, to a lesser extent, goats, has dramatically reduced the number of animals in the wild. However, a disturbing aspect of goat farming is the lack of controls on fencing (such as those for deer farming). Escapes of goats into areas where control operations are already required are common and, in some instances, previously goat-free areas have been colonised. It is too soon to predict whether, and at what level of efficiency, commercial live deer and goat capture operations will resume. The industry will have to restructure and seek means of lowering operating costs, which will be aided by a greater availability of deer and goats if fewer helicopters operate. Unless some commercial interest is retained in wild deer and goats, the potential for serious damage to vegetation will increase rapidly.

Possum trapping has continued at around the same level and, unless fur prices rise, the annual take is unlikely to reach the estimated maximum sustained yield level of around 2.5 million animals. Colonisation of new country has continued, particularly in Northland and South Westland. Operations were undertaken at the request of the Ministry of Agriculture to control bovine tuberculosis by reducing possum populations, and thereby also reducing possum-to-possum contact and possum-to-pasture movement. Further work has been requested this coming winter. The Service is also committed to foregoing some goat control work in the North Island to mount a possum control operation in Copland Valley, Westland National Park. This operation, which was recommended following a Forest Research Institute Survey some years ago, is designed to preserve an area of attractive rata/kamahi forest which is the last unmodified area of this type in New Zealand. To ensure its protection, such work will have to be done every 5–8 years.

Possum eradication operations continued on Codfish and Kapiti Islands so that rare and endangered species of wildlife and plants can be relocated there from habitats where they are now at risk. On both islands there have been drastic reductions in possum numbers, but whether eradication is possible is still not certain.

There is no evidence of goats on Raoul Island and it seems likely they have been eradicated.

A field officer visited Auckland Island to assess the feasibility of eradicating a herd of around 100 goats on the northern end of the island. Operations will not commence until 11 goats captured by Department of Lands and Survey officers have been studied for valuable genetic qualities that may have been retained in the herd over 120 years.

Over 200 public submissions have been made on the draft policy for tahr management, which was released for public comment late last year. Analysis of the submissions began in April. A sambar deer draft management plan was also put out for public comment by Wellington Conservancy.

Government agreed to reconstitute the National Recreational Hunting Advisory Committee, which last met in June 1985, for a 1-year term pending a decision on the fate of all quangos.

The new 30 850 hectare Kaweka Recreational Hunting Area (RHA) was gazetted on 23 January 1986. There is a strong sporting interest in a RHA for Stewart Island, and one in mid-Canterbury for tahr.

The most recent development in the tourist hunting field has been the establishment of a committee by the Minister to register professional hunting guides. Registration was asked for by hunting guides and endorsed at a public meeting of guides held in February 1986. About 90 guides have expressed interest, and between 30 and 40 are likely to satisfy the criteria for registration. This will do much to enhance New Zealand's tourist hunting reputation overseas.

The conflict between the sportsman's objective of management of Fiordland wapiti for game and the National Park objective of eradication is no nearer resolution. A proposal by Wildlife Service to relocate takahe reared in captivity back into the heart of the wapiti area has further polarised views. A recently completed vegetation survey by Forest Research Institute staff showed that, at the present level of control of deer numbers, adequate regeneration of grasslands and forests is occurring. Further reduction of deer for takahe relocation is not required.

It seems likely that kakapo may be more widespread than earlier thought in the North West Nelson State Forest Park, though surveys conducted during the summer by Forest Service and Wildlife officers did not find any birds.

Protected Area Management

There are now 82 ecological areas dedicated for the protection of scientific values and they cover 168 096 hectares of the forest estate. Ten new ecological areas were gazetted during the year in Coromandel, Kaimai-Mamaku, Whirinaki, North-West Nelson and Craigieburn Forest Parks, as well as in the central North Island forests and on Great Barrier Island.

The Protected Areas Scientific Advisory Committee, which is responsible for recommending reserves for scientific purposes on all Crown lands, has held three meetings since its inauguration in August 1985. This multi-disciplinary committee has independent status and its nine members represent biological and earth sciences. Through the National Parks and Reserves Authority and the Protected Natural Areas programme this committee also has a say in determining the requirements for reservation of land not already in Crown ownership, thus co-ordinating activities to achieve a truly representative protected natural area system.

Investigation of prospecting and mining licence applications, particularly in the West Coast and on the Coromandel Peninsula, continues to impose a heavy workload on field staff. A balance is sought between ensuring that prospecting can take place and safeguarding conservation values with a view to providing for informed decisions on subsequent mining proposals.

M. R. HOSKING, Director, Environmental Forestry.

ENGINEERING

Engineering, in the fields of mechanical, civil, electrical and telecommunications engineering, surveying and draughting, architecture, and plant and equipment acquisition and running, involves, in one form or another, approximately 27 percent of the department's total expenditure. Its significance will increase as harvesting increases.

The main elements of this expenditure were:

(1) Capital ($000)

	Roads	*Buildings*	*Grounds & Sites*	*Other*	*Total*
Protection recreation and amenity management	171	767	91	–	1,029
Indigenous production	560	159	10	–	729
Exotic production	6,169	1,377	341	–	7,887
Sawmilling	–	4,255	147	1,447	5,849
Forest protection	–	173	18	–	191
Research	–	1,018	–	–	1,018
Fleet purchases: (i) Forests	–	–	–	13,422	
(ii) Sawmills	–	–	–	2,147	15,569
Internal servicing	–	1,028	82	–	1,110
Totals	$6,900	$8,777	$689	$17,016	$33,382

The above figures exclude land purchase, salaries and receipts

(2) Maintenance ($000)

	Plant & Machinery	Roads	Buildings	Grounds & Sites	Communi-cations	Total
Protection, recreation and amenity management	45	387	553	162	61	1,208
Indigenous production	62	411	295	183	57	1,008
Exotic production	1,381	10,038	2,977	1,732	533	16,661
Sawmilling	6,150	–	143	51	–	6,344
Forest protection	19	20	102	57	25	223
Research	489	7	406	161	4	1,067
Internal servicing	34	22	139	46	146	387
Totals	8,180	10,885	4,615	2,392	826	26,898

The above figures exclude salaries and receipts

(3) Fleet, Workshops and Service Units Recoveries ($000)

Auckland Conservancy	5,705
Rotorua Conservancy	11,489
Wellington Conservancy	3,737
Nelson Conservancy	5,910
Westland Conservancy	2,565
Canterbury Conservancy	3,068
Southland Conservancy	5,624
Head Office	471
Forest Research Institute	514
Total	39,083

The above amounts have been recovered by fleet, workshops and service units through plant and vehicle hire rates and workshop and service unit charge-out rates that are debited to other operations.

Over the last 2 years the Engineering Division has been implementing accounting procedures to ensure that the cost of technical support is specifically identified and that valid comparisons can be made between the costs of internally provided services with those available externally. Forest managers are more selective in their use of technical services now that they are no longer seen as a "free" service. Technical staff have clearly defined and measurable goals to achieve and more flexibility to develop local initiatives. The changes have provided a basis for selling some of the department's technical expertise externally, and ministerial approval has been obtained to do this.

Uncertainty over the future of the Forest Service has contributed to difficulties in recruiting personnel from external sources and has exacerbated staff losses. Staff numbers in many technical engineering groups have declined to levels below that necessary to fully service all activities.

Mechanical workshops have been reducing staff to a plan that realises the benefits of the improved condition of the department's fleet of plant and vehicles. Mechanical draughting staff in head office have declined in numbers to the point where viability is in doubt and the training of cadets in this field is no longer feasible.

The Civil Design Section in head office has been disbanded in line with decentralisation policies, but the corresponding resource in some conservancies has not yet been increased to a compensating level. Some conservancies are short of civil engineering field staff and this is creating difficulty in the proper supervision of construction works.

The Telecommunications Section suffers from the chronic national shortage of trained personnel. A high level of inhouse training is maintained, aimed at minimising the recruitment difficulty and ensuring an adequate level of service.

Architectural staff have been reduced in line with a reduced building programme to the point where viability is marginal.

Adequate staffing has been maintained in the survey draughting area and there is no difficulty in recruiting suitable school leavers. Qualified and experienced senior staff are more difficult to recruit.

With a reduction in the total surveying required for forest operations the future workloads throughout the country have been reviewed and in Canterbury, Southland and Westland the survey staff have been transferred to the Department of Lands and Survey.

Fires during the year saw the loss of the newly renovated Waiuta Hospital, the last remaining building of significance in the old mining township near Reefton. The newly completed trades workshop at Golden Downs Forest was also destroyed.

Continued effort has been applied to the energy management installation at FRI Rotorua, and a water right extension has been obtained to September 1988. The efficiency of the geothermal utilisation and the consequent savings in draw off from the Rotorua geothermal field have been publicly acknowledged.

Good progress has been made with the Waipa Sawmill Power Generation Project. All civil works are now complete and buildings erected and the 3.5 mW turbine auxiliaries installed. The project will burn wood waste from the sawmill operations and aims to make Waipa self-sufficient in steam and electric power. Commissioning is expected in December 1986.

A. F. STACEY, Director, Engineering.

2. CORPORATE AND FORESTRY SERVICES, DEPUTY DIRECTOR-GENERAL — M. K. BURNS

CORPORATE SERVICES

Personnel and Administration

Personnel management and administration services have been reorganised to provide for improved service and greater efficiency and co-ordination.

A Personnel and Administration Division was established in June 1985 to encompass the personnel, training, information services, supply, and general administration functions. The first Director was appointed in August and other senior appointments followed late in 1985.

Negotiations to establish one occupational class (Forest Officers) for the department's two major field occupational classes i.e. Forestry (Foresters) and Forest Management (Forest Rangers) were successfully concluded in late March. This is the most significant restructuring of occupational classification that has taken place in the Forest Service.

Industrial Relations

The department re-negotiated through the SSC the two major determinations for its wage worker force during the year. This was the first time the parties had negotiated since the introduction of the wage freeze in 1982, consequently a backlog of claims had accumulated.

A productivity based bonus scheme was introduced into Conical Hill Sawmill in November 1985 following negotiations with the PSA and New Zealand Timber Workers Union. The scheme is a result of several years' work involving employees at the mill and the co-operation of their service organisations.

Discussions have been held with the industry over the future direction, management and financing of the Timber Industry Training Centre, but a final decision now awaits the general reorganisation of the department's sector services functions.

Personnel issues will of course be a major concern until the division of the department takes place early in 1987.

W. A. CHAPMAN, Director, Personnel and Administration.

Management Support

During the year the focus of the division's work has been to assist top management with the reorganisation of the department as a result of the Government's decisions on environmental administration. A significant component has been the preparation of a database of Forest Service assets, staff and finances by forest, district and conservancy.

Procedures for corporate planning were the subject of an intensive effort during the year but, with continuing uncertainty about future organisation, production of a corporate plan was shelved. The background work will assist in producing a corporate plan for the new Forestry Corporation, the Department of Conservation and Ministry of Forestry.

The internal audit function is now seen as a divisional responsibility and not something to be handled only by a regular programme of office inspections. The objective was to establish multi-disciplinary teams to evaluate the performance for top management of selected

parts of the department's activity but this will be superseded by the re-organisation next year.

Specific reviews undertaken during the year included:

- Reappraisal of the Information Services Section, and the public relations function in conservancies.
- Development of a prototype departmental delegations register.
- Review of the system for recovery of costs by the Draughting Services Section.

P. BERG, Director, Special Duties.

Finance

Progress in financial management systems and policy investigations was hampered by an inability to attract and hold well qualified professional accountants. Three additional senior accountants positions were established to strengthen the skills available.

Work has continued on developing and enhancing financial systems on the Forest Service's own computer network. Two major systems are to be implemented for the new financial year. The first will provide an improved system to assist in the management of debtors and the other will speed up the flow of data into the accounting system. Management reports will be produced more economically and more speedily.

Other new developments have been deferred while a major exercise is undertaken to identify the accounting requirements for the proposed Forestry Corporation. Private consultants are being employed to identify the requirements and when this has been done computer packages will be evaluated to identify those best suited to the new organisation. One of these will be the prototype financial management information system being built by the Forest Research Institute to fit in with the forest management information system they are developing.

D. J. LEAHY, Chief Finance Officer.

EDP

This year has largely been one of consolidation of previous efforts. The installation of terminals for the first phase of the integrated information processing network, which began in 1982, is now nearly complete except at some sites where there are long delays in acquiring Post Office circuits. This first phase has achieved more than expected although progress on the development of some of the major information systems has not been as fast as was initially hoped. This has been due partly to a shortage of qualified staff and also because of difficulties in finalising requirements for department-wide systems in a decentralised organisation.

The internal charging procedures introduced for computer use at the beginning of the year have been successful in encouraging a

spread of use into off-peak times of the day and in forcing cost centre managers to examine the use of the facilities by their staff. Further adjustments are to be made to the charging to encourage greater efficiency in use.

A number of new departmental applications have been completed during the year. Use of the spectrum system for assisting development is now starting to show real benefits as development and user staff become more familiar with it. Progress has also been made in building up development staff members. Experienced recruits are still largely from within the Public Service because of disparities in pay rates between the public and private sectors. New pay rates for EDP staff negotiated at the end of the year should assist in recruitment into the Public Service as a whole.

The coming restructuring of the Forest Service has required the division to spend some time examining the best way to split the network and staff between the new organisations. This has come at a time when network capacity is stretched to meet the demands on it. The 1982 proposal anticipated the need for expansion once the initial phase was complete; unfortunately this is likely to be delayed because of external events.

A. D. McEwen, Director, EDP.

ADVISORY SERVICES

Extension Services

This year's activities have been influenced by several important factors:

(i) the impending reorganisation of the commercial activities of the NZ Forest Service;

(ii) the introduction of charges for sector services;

(iii) announced changes in the treatment of forestry taxation;

(iv) the effect of government policies on land management and investor finance.

Uncertainty over the future role of the division, the rapidly changing environment and the shortage of regional staff made it difficult to effectively carry out a reappraisal of corporate objectives and related performance measures.

The aim in forest management extension is to encourage activities that reflect national rather than individual benefits. Although the provision of one-to-one advice may continue, the main emphasis will be on servicing the widest possible clientele in areas where the greatest good can be achieved. Priority will be given to those areas which show an immediate rather than a long-term return.

In the Economic Statement of 12 December 1985 the Minister of Finance announced changes to the taxation treatment of forestry including the removal of annual tax deductibility and the re-introduction of a cost of bush system. Officials have been involved in drawing

up a White Paper as a basis for public submissions to a Consultative Committee which will report to Government early in the new financial year.

Reactions of the sector to the proposed taxation changes have been to plan accelerated planting in 1986, and to predict a cessation of further land purchases for future afforestation.

In accordance with the more commercial approach advocated by the Government a charging policy for forest management extension advice is being introduced. All costs were recovered from a national course on forestry appreciation held during the year.

The division has prepared sets of simple publications covering the range of typical enquiries on timber utilisation. Outreach campaigns have been planned for particular audiences on specific topics related to processing and use of timber. The first such campaign (on timber weatherboards) will involve publication of an article on various aspects of weatherboard use and performance. The number of wood utilisation courses presented with the Timber Industry Training Centre increased to eight, and the number of people attending these week-long courses reached a record 195. In addition, 128 people attended shorter courses or workshops on high temperature drying, exotic hardwood utilisation, and grading for the Australian market.

In conjunction with the Timber Industry Federation timber utilisation courses were held in Wellington and Auckland. All direct costs incurred in running local courses were recovered.

Forest Quarantine

The importation of radiata pine from Chile began in 1985 as a result of a shortage of lower grade timbers in New Zealand. To protect New Zealand's large investment in radiata forests, timber quarantine measures have been introduced requiring sterilisation of consignments in Chile before shipment. Inspections carried out in New Zealand have resulted in the interception of several live insects.

A change in the structure of the Timber Inspectors Occupational Class has been advocated in an independent review and a more aggressive recruitment drive is being undertaken. Because of staff shortages, training has had to be reduced below a satisfactory level. A formal application has been made to include quarantine subjects in Stages IV and V of the New Zealand Certificate in Forestry and the development of these subjects has begun.

Timber Preservation Authority

The year, the thirtieth anniversary of the Authority, has been notable for a number of major developments.

In the spirit of CER, agreement has been reached with all the Australian states to introduce a common hazard rating on both sides of the Tasman. This agreement led to major modifications to the New

Zealand Timber Preservation Specifications which came into force on 1 April 1986.

A common form of branding has also been agreed to although one Australian state requires additional information in its brands and a gazette notice has been revised and simplified for implementation with the new specifications.

The Authority is concerned that it has become more of a quality control agency than an organisation undertaking quality assurance audits. The Authority has reviewed its method of sampling and has examined a trial system which should reduce costs and improve efficiency. A more radical approach which includes financial penalties for recalcitrant plants and possible financial rewards for those which consistently demonstrate high standards is also under consideration.

Although the Authority has been advised that there is currently no legal basis for it to apply charges it is assumed that this situation may be altered by statutory amendment and various ways that charges might be applied are being examined.

The use of AAC preservatives has been stopped due to the premature failure of material in service. Information was released through the timber industry organisations asking them to advise their members and through them to seek to advise the end users of this material.

Overseas Development Assistance

At 31 March 1986 12 departmental staff were serving on overseas development assistance assignments in Fiji, Western Samoa, Tonga, Cook Islands, Solomon Islands, Papua New Guinea and on a regional ASEAN project in the Philippines.

Specialist management, research, commercial and engineering staff undertook 19 short-term assignments during the year. These included a Quarantine Review for the Fiji Ministry of Forests, general reviews of Fiji Pine Commission and ANZAP projects, monitoring visits to the recently initiated afforestation project in Papua New Guinea, and participation in a forestry mission to Indonesia.

A Chief Forest Officer and Utilisation Adviser continue assisting Tonga's forest industry.

In Papua New Guinea the new large scale reafforestation project will soon complete its first year of operation. Programmes have been initiated in the Solomon and Cook Islands and VSA have recruited Forest Service staff to these projects.

A new hardwoods afforestation project in Fiji has been designed in consultation with Fijian officials.

A three-man team continues to serve the ASEAN afforestation project in the Philippines.

Sixty-five overseas visitors, most from the Pacific Basin, undertook study tours, training attachments, familiarisation and liaison visits to New Zealand.

Technical Exchange with China

Following an exchange of letters between the Minister of Forests and his counterpart in the People's Republic of China a technical mission on forestry visited China in October 1985. The mission's objectives were broadly to promote technical co-operation by identifying and evaluating specific opportunities for co-operation between New Zealand and China in forest management and forest products utilisation, and the means by which these could be implemented. Concluding discussions with the Chinese Ministry of Forests focused on co-operation and exchanges on fast growing plantation management in the central forestry region, a joint venture in forest products exports from New Zealand, and a possible joint venture consultancy to third world countries.

I. G. TROTMAN, Director, Advisory Services.

PLANNING SERVICES

DEVELOPMENT PLANNING

National Exotic Forest Description (NEFD)

The first report of the NEFD system, describing areas and growth rates of all New Zealand plantation forests, was published early in 1985. Analysts will be able to use NEFD data to model future forest yields and area changes by adopting assumptions about likely future planting and cutting strategies.

Collection and collation of NEFD is being improved and repeated annually so comparisons of data on a year to year basis will be possible.

National Wood Supply Model Revision

The division and conservancies have been using NEFD data to revise the national wood supply projections. These were last produced in 1981.

Revised supply projections in the more critical regions have been completed. For example, in Northland major downward corrections to forest growth rates were needed. Accurate indicative yield models are required for planning major infrastructural developments, such as the proposed port expansion at Marsden Point.

International Models of Trade in Forest Products

Planning Services Division co-ordinated the collection and collation of New Zealand forest and forest industry information for the forestry sector project of the International Institute for Applied Systems Analysis (IIASA) in Austria. This project has been in progress for some years. In return for our data New Zealand received final software for the Global Forest Sector Trade Model (GTM) and tapes of the data contributed by other countries.

The Forest Research Institute has been able to run the GTM on the Forest Service Computer. Representatives from Australia and New Zealand interested in the IIASA work met twice during the year, in Wellington and in Melbourne.

It was agreed at those meetings that the highly aggregated GTM should be maintained to provide a world perspective of future forest trade, but that the focus in the immediate future should be on an Oceanic forest products trade model. Closer collaboration with Australian interests working to this end is continuing.

ECONOMICS

Afforestation

A major focus of the division's work during the year was economic evaluation of the replanting and restocking activities of the State. The importance of this was underlined by the Government policy towards greater commercialisation of trading departments.

In recognition of the need for economic skills at the regional operational level an economist was seconded to work with Southland Conservancy. The number of such projects undertaken with other conservancies also increased.

A number of land purchase/lease evaluations were completed during the year. The growing interest in farm forestry was seen in the demand for economic studies in this field. A joint exercise with the Ministry of Agriculture and Fisheries on Northland hill country farmland concluded that both agroforestry and woodlots offer opportunities to add value to the equity of hill country farmers. However, such studies, specific to a single region, may not be appropriate for general application.

Other Work

A study jointly funded by the Forest Service and three other Government departments in 1984 identified the forms of industry assistance in new Zealand.

Considerable time was spent studying the effect of proposed tax changes and possible options.

A computerised information system was established to assist research into international trade in forestry.

Among studies undertaken by consultants was the projection of domestic demand for building timber, economics of fire control expenditure and a joint study on regional multipliers.

An integrated approach to land use planning has been of great interest to a wide range of farming, foresty, and other land user interests.

J. VALENTINE, Director, Planning.

3. COMMERCIAL SAWMILLING

Financial Statements

In line with the Department's change of balance date to 31 March, the Commercial Division 1985 financial statements cover the 15-month period 1 January 1985 to 31 March 1986. Since 1972 the Division has paid interest and dividends on the basis of notional capital structure. After consultation with the Treasury, however, the Division has, from 1 January 1985, paid interest on the actual monthly cash book balance. While this resulted in a higher interest calculation it reflects more accurately the cost of borrowing in the private sector. In addition, the Division now pays a dividend at the rate of 4.5 percent per annum on government's equity in the sawmills. Detailed accounts for the 15-month period to 31 March 1986 are given in Appendix 8. A separate Divisional Report is also published.

Highlights of the 31 March 1986 financial statements with comparative figures for the 31 December 1984 and 1985 calendar years are as follows:

	March 1986	*December 1985*	*December 1984*
	$000	$000	$000
Operating Statement			
Turnover	83,259	70,248	60,672
Profit before tax	11,579	11,488	10,899
Tax paid profit	7,611	7,510	7,896
Dividend paid	1,916	1,533	1,049
Financial Position			
Government Equity	39,351	39,633	34,072
Treasury advances	20,884	13,299	7,152
Net funds employed	60,274	52,932	41,224

Profit

Tax paid profit was $7.5 million for 12 months to 31 December 1985 and $7.6 million for 15 months to 31 March 1986. The result is down slightly on 1984 ($7.9 million for 12 months), but the 1985 and 1985–86 results were achieved in a period when export receipts were affected by the strengthened New Zealand dollar and income tax paid was higher as a result of the partial removal of export performance incentives.

Production

Both Waipa and Conical Hill sawmills enjoyed excellent productivity throughout the 15-month period. Production of green sawn timber for the year to December 1985 was 239 000 m^3 which exceeded by 4 percent the previous annual record of 229 800 set in 1984. Production for the 15-month period to March 1986 was 284 900 m^3.

Sales

Turnover for year ended December 1985 was $70.2 million, up 15.6 percent on the previous year. Export receipts did not increase largely due to the strengthened New Zealand dollar against the Australian dollar and decline in volume of flitches (or squared logs) sold to Japan. Turnover for the 15-month period to March 1986 was $83.3 million.

Marketing of solid wood products to Japan has, over the years, been largely dependent on the supply of flitches for predominantly low grade use. It is becoming increasingly difficult to maintain a position in the low grade market against competition from other wood exporting countries having a very much lower cost structure than does New Zealand. Every effort is now being made to secure a niche in the Japanese market for higher value products. Trial shipments during 1985 of kiln dried clear cutting of radiata pine to furniture manufacturers were successful and provided a base for what is now regular commercial shipments.

The volume of furniture grade timber exported to such countries as Japan, Singapore and North America is not large, but it suits the present availability. The export trade is being nurtured to pave the way for the larger volumes that will become available in the 1990s.

Log Supply

Waipa and Conical Hill sawmills purchase Forest Service sawlogs at prices which reflect current market values of short term log sales in their respective regions. In addition, the mills purchase logs from the private sector when the Departmental allocation is insufficient to meet the mills' demand for sawn timber products. For 1984 and much of 1985 production was limited by log availability, but the turnaround in the market from the beginning of 1986 has meant that production is now limited by the mills' ability to sell.

The prices paid by the mills for Forest Service logs were reviewed during 1985 in accordance with short term sales in the Kaingaroa and Tapanui regions. From August 1985, Waipa has paid $24.78 per m^3 (on stump) for radiata pine, $42.64 per m^3 (on ride) for Douglas fir, and $25.51 per tonne (on stump) for Corsican pine. From June 1985 Conical Hill has paid $43.50 per m^3 (delivered to mill) for radiata pine, $68.70 per m^3 (delivered to mill) for Douglas fir, and $43.10 per m^3 (delivered to mill) for Corsican pine.

The price of sawlogs to both sawmills is subject to a CPI review from 1 April 1986.

Capital Development

Construction of an $8 million power and steam plant for Waipa proceeded smoothly during the year. Commissioning trials commenced in March 1986 and the plant is expected to be brought into full service later this year.

Two additional planer/moulder machines were installed at Waipa to further expand the production capacity for supply of dressed furniture components. A new edge bonding machine commenced production of wide panels from clear grades of radiata pine. This further extends the Division's product range and initial orders to Australia and Singapore have been favourably received.

B. H. CHILDS, Director, Commercial Division.

4. RESEARCH

Conversion Planning Model System

A special research group at the Forest Research Institute has completed a 3-year project to develop a computer-based model system that can assist the forestry sector to rationalise the allocation, processing and marketing of its radiata pine resources. The system includes models for resource assessment and prediction, log grade evaluation, process selection and market constraints. It is a powerful planning tool that can be used to address a wide range of problems, from the level of a single processing plant up to a regional forest estate. Some validation work remains to be completed before the system can be fully applied commercially.

Revenue from Research

During the year the Government decided to require the recovery of increasing amounts of expenditure over a 3-year period. A charging policy was developed in discussion with industry and the commercial arms of the Forest Service, and the first year's revenue target was achieved.

FRI works closely with the forestry sector and co-ordinates its work with that of other research agencies. Fuller details are provided in a separate annual report with a comprehensive account of its research activities.

C. BASSETT, Chief Director, Research.

APPENDIX 1

AREA OF FOREST LAND AT 31 MARCH 1986

(Area in hectares)

Conservancy	Permanent State Forest		Total Area of State Forest Land	State Forest Land as Percentage of Total Land Area of Conservancy
	Ordinary	National Endowment		
Auckland	387 443	38 719	426 162	13.5
Rotorua	436 015	131 385	567 370	18.0
Wellington	578 055	16 499	594 554	12.4
Nelson	658 638	189 841	848 479	38.4
Westland	811 909	303 060	1 114 969	54.2
Canterbury	306 373	1 476	307 849	6.6
Southland	464 473	33 041	497 514	8.0
Total	3 642 906	713 991	4 356 897	16.6

Reservations and Withdrawals

	Hectares
Land placed under State reservation	35 187
Areas withdrawn from reservation comprised:	
for settlement	1 708
for national parks	3 701
for roads	10
for scenic reserves	–
other	191

APPENDIX 2

NEW AREA PLANTED IN STATE EXOTIC FOREST : BY SPECIES

(Area in hectares)

Year Ended 31 March	Radiata pine	Douglas fir	Eucalyptus	Other	Total
1986	15 316	941	290	1 008	17 555
1985	17 115	1 159	626	1 410	20 310
1984	18 352	999	217	837	20 405
1983	17 022	925	470	826	19 243
1982	18 290	1 434	638	1 221	21 583
1981	14 381	699	690	916	16 686
1980	16 242	907	407	733	18 289
1979	18 871	596	452	1 765	21 684
1978	18 021	631	567	675	19 894
1977	20 793	719	396	370	22 278
1976	20 150	653	309	553	21 665
1975	19 515	795	515	204	21 029
1974	19 673	794	111	381	20 959
1973	15 792	1 107	114	346	17 359
1972	11 795	880	33	313	13 021
1971	12 674	1 435	85	544	14 738
1970	11 746	2 166	144	731	14 787
1969	10 240	2 391	80	780	13 491
1968	7 188	2 008	81	384	9 661
1967	6 159	1 664	70	695	8 588
1966	6 115	1 233	69	898	8 315
1965	6 947	1 571	82	1 075	8 675
1964	5 075	745	41	1 582	7 443

APPENDIX 3

TABLE 1

ESTABLISHMENT AND CLEAR FELLING IN STATE EXOTIC FORESTS

(a) Totals for Conservancies as at 31 March 1986

(Area in hectares)

	Operations During Year						
Conservancy	New Area Planted	Former Productive Areas Restocked by Planting	Area Clear Felled with Yield	Other Changes in Stocked Area	Stocked Area	Area Awaiting Restocking	Total Productive Area
Auckland	2 848	1 153	726	− 396	86 107	632	86 739
Rotorua	4 808	5 536	4 273	− 588	239 015	3 011	242 026
Wellington	3 197	494	423	−1 120	73 056	536	73 592
Nelson	2 011	803	400	− 199	61 229	558	61 787
Westland	1 180	279	83	− 364	22 792	186	22 978
Canterbury	911	879	617	− 471	34 921	2 336	37 257
Southland	2 600	345	374	+ 69	65 874	374	66 248
Total	17 555	9 489	6 896	−3 069	582 994	7 633	590 627

TABLE 2

ESTABLISHMENT AND CLEAR FELLING IN STATE EXOTIC FORESTS

(b) Total for both islands in New Zealand

(Area in hectares)

	Operations During Year						
Conservancy	New Area Planted	Former Productive Areas Restocked by Planting	Area Clear Felled with Yield	Other Changes in Stocked Area	Stocked Area	Area Awaiting Restocking	Total Productive Area
Total North Island—							
1986 ..	10 853	7 183	5 422	– 2 104	398 178	4 179	402 357
1985 ..	12 747	7 203	5 088	– 2 072	387 648	5 142	392 790
1984 ..	13 204	6 000	5 027	– 1 446	374 858	5 483	380 341
1983 ..	12 735	7 712	4 220	– 2 726	362 127	5 866	367 993
1982 ..	13 591	7 467	6 163	– 1 123	348 626	7 390	356 016
Total South Island—							
1986 ..	6 702	2 306	1 474	– 965	184 816	3 454	188 270
1985 ..	7 563	1 672	1 105	– 575	178 245	3 737	181 982
1984 ..	7 201	2 017	1 199	– 741	170 690	3 918	174 608
1983 ..	6 508	1 808	898	– 772	163 412	4 368	167 780
1982 ..	7 992	1 627	1 130	– 901	156 766	4 999	161 765
Total New Zealand—							
1986 ..	17 555	9 489	6 896	– 3 069	582 994	7 633	590 627
1985 ..	20 310	8 875	6 193	– 2 647	565 893	8 879	574 772
1984 ..	20 405	8 017	6 226	– 2 187	545 548	9 401	554 949
1983 ..	19 243	9 520	5 118	– 3 498	525 539	10 234	535 773
1982 ..	21 583	9 094	7 293	– 2 024	505 392	12 389	517 781

APPENDIX 4

TOTAL REMOVALS FROM STATE FORESTS YEAR ENDED 31 MARCH 1986

(Volume in thousands cubic metres)

	Indigenous			Exotic			Grand
Conservancy	Logs	Smallwood	Total	Logs	Smallwood	Total	Total
Auckland	–	–	–	435	60	495	495
Rotorua	28	–	28	3 142	73	3 215	3 243
Wellington	–	–	–	258	28	286	286
Nelson	5	–	5	209	13	222	227
Westland	169	–	169	8	1	9	178
Canterbury	–	–	–	140	19	159	159
Southland	58	–	58	233	14	247	305
Total:							
1985–86	260	–	260	4 425	208	4 633	4 893
1984–85	243	–	243	4 353r	230r	4 583r	4 826r
1983–84	267	1	268	3 900	218	4 118	4 386

Notes:

(1) This table shows all roundwood removed from State forests under licences, permits and log sale agreements.

(2) Roundwood for pulp, fibreboard and particleboard is included with logs. Smallwood includes posts, poles and firewood.

r = revised figures.

APPENDIX 5

TOTAL WOOD REMOVALS FROM STATE INDIGENOUS FORESTS BY METHOD OF SALE YEAR ENDED 31 MARCH 1986

(Volume in cubic metres; Value in $000)

Conservancy	Logs		Smallwood		Total	
	Volume	Value	Volume	Value	Volume	Value
(a) Sales of Standing Timber						
Auckland	–		–	–	–	–
Rotorua	23 997	55	–	–	23 997	55
Wellington	–	–	–	–	–	–
Nelson	4 656	150	–	–	4 656	150
Westland	124 907	5 036	56	1	124 963	5 037
Canterbury	–	–	–	–	–	–
Southland	41 702	547	–	–	41 702	547
Total:						
1985–86	195 262	5 788	56	1	195 318	5 789
1984–85	176 192	3 329	224	4	176 416	3 333
1983–84	202 070	2 928	503	10	202 573	2 938
(b) Sales of Logs						
Auckland	–	–	–	–	–	–
Rotorua	4 513	258	–	–	4 513	258
Wellington	–	–	–	–	–	–
Nelson	20	1	–	–	20	1
Westland	43 634	1 977	–	–	43 634	1 977
Canterbury	–	–	–	–	–	–
Southland	16 790	275	–	–	16 790	275
Total:						
1985–86	64 957	2 511	–	–	64 957	2 511
1984–85	66 323	2 118	–	–	66 323	2 118
1983–84	64 628	2 082	–	–	64 628	2 082

Notes:

(1) Logs include sawlogs, pulplogs, and peeler logs.

(2) Values of log sales relate to the value of timber removed and are based on a bush skid or ride price point.

APPENDIX 6

TOTAL WOOD REMOVALS FROM STATE EXOTIC FORESTS BY METHOD OF SALE YEAR ENDED 31 MARCH 1986

(Volume in cubic metres; Value in $000)

	Logs		*Smallwood*		*Total*	
Conservancy	*Volume*	*Value*	*Volume*	*Value*	*Volume*	*Value*
	(a) Sales of Standing Timber					
Auckland	142 132	3 996	27 823	228	169 955	4 225
Rotorua	1 912 902	22 771	4 871	103	1 917 773	22 874
Wellington	55 019	1 461	19 454	271	74 473	1 732
Nelson	26 881	126	5 530	53	32 411	179
Westland	3 242	133	1 037	14	4 279	147
Canterbury	47 908	385	7 147	236	55 055	621
Southland	52 774	795	8 869	166	61 643	961
Total:						
1985–86	2 240 858	29 668	74 731	1 072	2 315 589	30 740
1984–85	2 427 171	21 927r	108 344r	1 147r	2 535 515r	23 074r
1983–84	2 132 233	15 404	164 005	1 431	2 296 238	16 835
	(b) Sales of Logs					
Auckland	293 275	14 902	31 979	1 665	325 254	16 567
Rotorua	1 228 740	41 742	68 026	2 846	1 296 766	44 589
Wellington	202 543	8 270	8 058	252	210 601	8 522
Nelson	181 998	8 705	7 713	245	189 711	8 950
Westland	4 795	221	–	–	4 795	221
Canterbury	92 228	3 838	12 153	615	104 381	4 453
Southland	180 758	8 774	5 192	190	185 980	8 964
Total:						
1985–86	2 184 337	86 452	133 121	5 813	2 317 458	92 265
1984–85	1 926 197r	58 260r	121 679r	4 269r	2 047 876r	62 529r
1983–84	1 768 717	43 278	53 502	1 708	1 822 219	44 987

Notes:

(1) Logs include sawlogs, pulplogs, and peeler logs.

(2) Values of log sales relate to the value of timber removed and are based on bush skid or ride price point.

(3) Due to rounding, values may not always add up to totals shown.

APPENDIX 7
PRODUCTION OF ROUGH SAWN TIMBER FOR YEAR ENDED 31 MARCH 1985

(a) By Species

Volume in cubic metres

Conservancy (1)	Indigenous								Exotic				All Species			
	Rimu plus Miro (2)	Matai (3)	Totara (4)	Kahikatea (5)	Kauri (6)	Tawa (7)	Beech (8)	Minor Species (9)	Exotic Pines (10)	Douglas fir (11)	Eucalyptus (12)	Minor Species (13)	Indigenous (14)	Exotic (15)	Total (16)	Sawmills Registered (17)
Auckland	4 355	345	748	1 144	1 601	3 963	100	617	311 675	6 108	1 952	19 436	12 873	339 171	352 044	118
Rotorua	5 300	103	59	470	–	2 931	7	127	1 023 185	117 833	368	5 611	8 997	1 146 997	1 155 994	46
Wellington	8 422	384	112	1 348	–	526	–	32	270 044	7 090	175	6 502	10 824	283 811	294 635	76
Nelson	5 151	48	31	168	–	4	800	8	75 489	19 564	67	1 230	6 210	96 350	102 560	49
Westland	75 451	39	24	6 883	–	–	3 624	37	4 055	–	–	34	86 058	4 089	90 147	28
Canterbury	–	–	–	–	–	–	5	–	135 097	13 018	90	7 391	5	155 596	155 601	54
Southland	3 113	22	76	43	–	–	12 540	5	116 758	11 167	25	10 916	15 799	138 866	154 665	52
North Island—																
1984–85	18 077	832	919	2 962	1 601	7 420	107	776	1 604 904	131 031	2 495	31 549	32 694	1 769 979	1 802 673	240
1983–84	20 625	1 228	1 062	2 311	1 083	7 281	2	1 015	1 440 038	126 585	2 737	25 224	34 607	1 594 584	1 629 191	231
1982–83	24 446	2 276	1 014	3 634	1 908	11 115	45	4 057	1 463 925	123 839	2 515	31 228	48 495	1 621 507	1 670 002	241
South Island—																
1984–85	83 715	109	131	7 094	–	4	16 969	50	331 399	43 749	182	19 571	108 072	394 901	502 973	183
1983–84	78 916	111	207	6 722	–	–	15 649	74	308 429	44 365	776	11 130	101 679	364 700	466 379	188
1982–83	76 209	122	160	7 333	–	10	17 388	107	313 087	39 855	303	11 327	101 329	364 572	465 901	195
New Zealand—																
1984–85	101 792	941	1 050	10 056	1 601	7 424	17 076	826	1 936 303	174 780	2 677	51 120	140 766	2 164 880	2 305 646	423
1983–84	99 541	1 339	1 269	9 033	1 083	7 281	15 651	1 089	1 748 467	170 950	3 513	36 354	136 286	1 959 284	2 095 570	419
1982–83	100 655	2 398	1 174	10 967	1 908	11 125	17 433	4 164	1 777 012	163 694	2 818	42 555	149 824	1 986 071	2 135 903	436

Notes:

(1) This table is based on statistics collected by the New Zealand Forest Service in connection with the annual registration of sawmills.

(2) Indigenous "Minor Species" (column 9) for 1984–85 include taraire, 443 m^3; mangeao 9 m^3; tanekaha 15 m^3; kokekohe 2 m^3; hinau 55 m^3; rewarewa 136 m^3; pukatea 5 m^3; other 161 m^3.

(3) Exotic pines (column 10) for 1984–85 include radiata 1 822 373 m^3 of which 10 057 m^3 were sleepers; Corsican 76 352 m^3; ponderosa 9 167 m^3; slash (p. elliottii) 15 770 m^3; loblolly (p. taeda) 6 427 m^3; strobus 3 985 m^3; other 2 229 m^3.

(4) Exotic "Minor Species" (column 13) for 1984–85 include larch 21 186 m^3; macrocarpa 18 968 m^3; poplar 235 m^3; redwood 3 405 m^3; other 7 326 m^3.

PRODUCTION OF ROUGH SAWN TIMBER FOR THE YEAR ENDED 31 MARCH 1985

(b) By Land Ownership

Volume in cubic metres

Conservancy (1)	Indigenous					Exotic				
	State Forest Land (2)	Unoccupied Crown Land (3)	Maori Land (4)	Private Land and Crown Leasehold (5)	Total (6)	State Forest Land (7)	Local Authority (8)	Company and Private Land (9)	Total (10)	Grand Total (11)
Auckland	269	–	1 184	11 420	12 873	215 862	2 847	120 462	339 171	352 044
Rotorua	2 902	–	2 767	3 328	8 997	635 367	911	510 719	1 146 997	1 155 994
Wellington	229	4 459	1 673	4 463	10 824	142 434	9 678	131 699	283 811	294 635
Nelson	3 907	–	–	2 303	6 210	48 357	2 261	45 732	96 350	102 560
Westland	74 684	89	1 529	9 756	86 058	4 079	–	10	4 089	90 147
Canterbury	–	–	–	5	5	38 215	21 914	95 467	155 596	155 601
Southland	7 049	–	7 151	1 599	15 799	87 243	16 201	35 422	138 866	154 665
North Island—										
1984–85	3 400	4 459	5 624	19 211	32 694	993 663	13 436	762 880	1 769 979	1 802 673
1983–84	5 959	14	9 861	18 773	34 607	883 839	13 339	697 406	1 594 584	1 629 191
1982–83	12 906	–	7 228	28 361	48 495	902 225	17 534	701 748	1 621 507	1 670 002
South Island—										
1984–85	85 640	89	8 680	13 663	108 072	177 894	40 376	176 631	394 901	502 973
1983–84	81 250	–	6 683	13 746	101 679	175 153	40 289	149 258	364 700	466 379
1982–83	78 980	–	7 963	14 386	101 329	194 221	40 223	130 128	364 572	465 901
New Zealand—										
1984–85	89 040	4 548	14 304	32 874	140 766	1 171 557	53 812	939 511	2 164 880	2 305 646
1983–84	87 209	14	16 544	32 529	136 286	1 058 992	53 628	846 664	1 959 284	2 095 570
1982–83	91 886	–	15 191	42 747	149 824	1 096 446	57 757	831 876	1 986 079	2 135 903

APPENDIX 8

THE FINANCIAL STATEMENTS OF THE NEW ZEALAND FOREST SERVICE 15 MONTH PERIOD ENDED 31 MARCH 1986

The Financial Statements on pages 35 to 46 are prepared under the authority of section 16 of the Forests Act 1949 and satisfy the requirements of all relevant Statements of Standard Accounting Practice issued by the New Zealand Society of Accountants.

STATEMENT OF ACCOUNTING POLICIES

1. **General Accounting Policies**

The general policies adopted in the preparation of these financial statements are:

— Unless otherwise stated the measurement base adopted is that of historical cost. The Government has decided that the New Zealand Forest Service is to be dis-established from 1 April 1987. At that time the various activities and responsibilities will be taken over by the Forestry Corporation, the Ministry of Forestry and the Department of Conservation. It is considered the New Zealand Forest Service will continue to be a going concern up to that time.

— Accrual accounting is used to match expenses and revenue.

2. **Particular Accounting Policies**

The following are the particular accounting policies which have a material effect on the measurement of operating results and financial position:

2.1 *Consolidation*

The financial statements show the consolidated operating results and financial position of forestry and sawmilling, after eliminating all significant intra-Forest Service transactions, for the 15 month period from 1 January 1985 to 31 March 1986. For this purpose, the purchase method has been used.

2.2 *Sawmilling*

Income tax payments, interest charges on loan finance, and dividends on share capital are accounted for.

2.2.1 *Notional Financing Structure*

The sawmilling financial statements in note 8 are prepared on a basis consistent with trading companies. Because all net expenditure is funded through the Forest Service, a notional financing structure is in place to permit comparisons of sawmilling results with those of companies in the timber industry. Changes in the notional financing structure during the year are arrived at by:

(a) — adding the 1986 retained profit to accumulated profits, and

(b) — increase in term finance to reflect the further drawdown of Government advances.

2.2.2 *Income Tax*

Only sawmilling is subject to company income tax.

Deferred taxation is provided to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. The liability method is used to determine deferred tax.

2.3 *Long Term Assets*

2.3.1 *Exotic Forests — Historic Cost*

Exotic forests are stated at the direct cost of establishment, tending, protection, and maintenance, together with the appropriate proportion of overhead costs. When the trees are harvested, costs capitalised in earlier years are charged to the operating statement in the proportion that the area cut bears to the total area of similar crops in the forest.

2.3.2 *Exotic Forests — Current Valuation*

The current value of the exotic forest crop has been noted annually since 1981 (See note 7(c) of the financial statements for the year ended 31 December 1984.)

In introducing this estimated value as a note to the financial statements for the year ended 31 December 1981 it was stated that "this current value has not been introduced into the accounts, as further developments regarding forest valuation practices and procedures are under consideration". The current value from 1981 to 1984 was derived from a 1979/80 valuation done for the purposes of the Census of Forestry and Logging for that census year. It has not been recalculated since but simply updated annually by adjustments for additions, deletions, and increment and improvements to forests and for changing wood values. The approximation inherent in the broadly based 1979/80 valuation has therefore widened and recalculation is necessary. Therefore it is considered no longer appropriate to further extrapolate from the 1979/80 base.

No five yearly recalculation of production forest values has yet been undertaken for the 1985/86 census year. As noted in last year's report discussion with industry on an acceptable accounting treatment which would result in more appropriate disclosure has continued. Any recalculation will take into account the outcome of these discussions. However, the proposal to vest the State production forest assets in a Forestry Corporation requires a much more detailed revaluation than is likely in a broad national census study.

2.3.3 *Indigenous Forests*

No cost is stated for indigenous forest crops in the Statement of Financial Position, as the present management policy is to perpetuate these forests as both natural forests and managed stands. Costs incurred on these forests during the year are charged to the Operating Statement.

2.3.4 *Land*

Land held for sawmilling is stated at the latest 5 yearly Government valuation. Land for forestry purposes is stated at cost, except that land transferred from Crown to State forest prior to 1974 has been stated at a nominal value of $1.24 per hectare. The total of the latest 5 yearly Government valuation of forestry land plus acquisitions at cost since valuation date is stated in note 7(b).

2.3.5 *Other Fixed Assets*

All other fixed assets are stated at cost.

2.3.6 *Depreciation*

Depreciation is provided using the straight line method, after allowing for residual values. Expected average economic lives for the main classes of fixed assets are:

	Years
Fixed plant, machinery and equipment	5–30
Buildings and bridges	30–45
Cars and trucks	6–12
Fire equipment	10–15
Mobile plant and equipment	10–20
Radio installations	5
Power saws	4

2.4 *Investments*

2.4.1 *Forestry Encouragement Loans and Grants*

Forestry Encouragement Loans are shown at amounts advanced plus accrued interest. Under the provisions of the Forestry Encouragement Loan Regulations 1967, repayment of half the loans and all interest is waived after 20 years provided the trees are clearfelled at maturity. No adjustment has been made for such waivers.

Forestry Encouragement Grants are expensed to operations. From 1 April 1983 Forestry Encouragement Grants superseded Forestry Encouragement Loans and deductibility of forestry expenditure for income tax purposes. From 8 November 1984 Forestry Encouragement Grants were abolished and replaced by tax deductibility.

2.5 *Accounts Receivable*

Accounts receivable are stated at expected realisable value, after providing for doubtful debts.

2.6 *Inventories*

Stocks and stores are stated at the lower of latest purchase price or net realisable value, except as follows:

Log stocks	—	At cost.
Trading stocks	—	Sawn timber and manufactured timber products are stated at net realisable value determined from the wholesale list selling prices less 22.5 percent.
Retail trading stocks	—	Stated at wholesale prices.
Wood chips	—	Stated at net realisable value.
Stores	—	HO Forestry bulk stores are stated at average cost.
	—	Conservancy stores are stated at latest purchase price.
	—	Sawmill stores are stated at the latest purchase price.

2.7 *Forestry Research*

Research and development is expensed to operations.

2.8 *Liabilities*

Liabilities are stated at the estimated amounts payable and include all known obligations which can be reliably estimated. Current liabilities include the amounts payable in the next financial year.

2.9 *Foreign Currencies*

Foreign currency transactions throughout the year have been converted to New Zealand currency at the ruling rates of exchange at the dates of realisation and payment.

3. **Changes in Accounting Policies**

(a) Deferred tax arising from timing differences attributable to depreciation is no longer brought to account in the sawmill accounts as it is believed that it is reasonably probable that the taxation benefit of such deferrals will continue for the foreseeable future. Of the total amount held in the provision for Deferred Taxation Account at the beginning of the accounting period, $1,384,000 has been transferred to Retained Profits and treated as a prior period adjustment. The balance of $39,000 is now due for payment.

(b) The point of sale of wood chips destined for the export market is now deemed to be when the delivery is made to the wharf. Previously all wood chips held at the wharf awaiting shipment were shown as stock. This change has no financial effect on the final reported profit.

With these exceptions there have been no changes in the above accounting policies which have been applied on bases consistent with those used in previous years.

NEW ZEALAND FOREST SERVICE OPERATING STATEMENT FOR THE 15 MONTHS ENDED 31 MARCH 1986

	Note	1986 $(000)	*1984 $(000)*
Income Earning — Production Forestry and Sawmilling			
Turnover — sawmilling		83,259	*60,672*
Turnover — production forestry		132,324	*80,056*
Total turnover		215,583	*140,728*
Less operating expenditures	1	120,888	*87,125*
Operating surplus		94,695	*53,603*
Non-income Earning — Forestry Services, Research and Administration			
Operating expenditures		109,572	*136,403*
Less miscellaneous recoveries		28,296	*21,143*
Net operating expenditures	1	81,276	*115,260*

Note 1 referred to above and which follows on page 40 forms part of and is to be read in conjunction with this financial statement.

NEW ZEALAND FOREST SERVICE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 1986

	Notes			1986 $(000)	*1984 $(000)*
Funds Employed					
Funds — sawmilling	8(C)	60,235			*39,801*
forestry		1,217,899			*993,461*
total	5			1,278,134	*1,033,262*
Employment of Funds					
Fixed assets — sawmilling	8(C)	35,178			*25,350*
forestry	7	1,171,238			*994,882*
total				1,206,416	*1,020,232*
Investments	6			14,451	*12,133*
Current assets—					
Accounts receivable		40,172			*30,216*
Inventories		30,919			*23,463*
Deposits		922			*392*
Total current assets				72,013	*54,071*
Total assets				1,292,880	*1,086,436*
Less liabilities—					
Provision for tax		426			*2,170*
Accounts payable		14,281			*49,581*
Total current liabilities				14,707	*51,751*
Deferred tax		39			*1,423*
Total long-term liabilities				39	*1,423*
Total liabilities				14,746	*53,174*
				1,278,134	*1,033,262*

Notes 5 to 8, referred to above and that follow on pages 42 to 44, form part of and are to be read in conjunction with these financial statements.

A. K. Familton, Acting Director-General of Forests.
D. J. Leahy, Chief Finance Officer.

NEW ZEALAND FOREST SERVICE STATEMENT OF CHANGES IN FINANCIAL POSITION FOR 15 MONTHS ENDED 31 MARCH 1986

	Notes	1986 $(000)	*1984 $(000)*
Funds were provided from:			
Government	5	230,446	*176,116*
Operating surplus — Forestry production and sawmilling	1	94,695	*53,603*
Non cash adjustments—			
Depreciation of fixed assets		15,320	*6,240*
Deferred tax		(1,384)	*369*
Prior period adjustment		1,384	–
Decrease in working capital (refer below)		–	*30,111*
Total		340,461	*266,439*
Funds were applied to:			
Increase in fixed assets — forestry	7	188,856	*143,726*
sawmilling	8(D)	13,024	*6,217*
Increase in investments	6	2,318	*1,236*
Increase in working capital (refer below)		54,987	–
Net operating expenditures on forestry services, research and administration	1	81,276	*115,260*
Total		340,461	*266,439*
Increase/(decrease) in working capital was reflected in:			
Tax refundable		–	*(1,419)*
Accounts receivable		9,956	*7,171*
Inventories		7,456	*(420)*
Deposits		530	*21*
Accounts payable		35,301	*(33,294)*
Provision for tax		1,744	*(2,170)*
Total		54,987	*(30,111)*

Notes 1 to 8 referred to above and that follow on pages 40 to 44, form part of and are to be read in conjunction with these financial statements.

NOTE 1.

OPERATING RESULTS BY PROGRAMMES

Income Earning — Production Forestry and Sawmilling

	Note	Forestry Exotic Production 1986 $(000)	Forestry Exotic Production 1984 $(000)	Forestry Indigenous Production 1986 $(000)	Forestry Indigenous Production 1984 $(000)	Sawmilling 1986 $(000)	Sawmilling 1984 $(000)	Consolidated 1986 $(000)	Consolidated 1984 $(000)	
Turnover	2	148,133	86,444	9,879	5,474	83,259	60,672	215,583	140,728	(a)
Less operating expenditures	3	63,590	40,012	9,394	6,989	73,592	51,985	120,888	87,125	(a)(b)
Operating surplus/(deficit)		84,543	46,432	485	(1,515)	9,667	8,687	94,695	53,603	

Non-income Earning — Forestry Services, Research and Administration

	Note	Forestry Services 1986 $(000)	Forestry Services 1984 $(000)	Forestry Research 1986 $(000)	Forestry Research 1984 $(000)	Internal Servicing 1986 $(000)	Internal Servicing 1984 $(000)	Consolidated 1986 $(000)	Consolidated 1984 $(000)
Operating expenditures	4	45,405	92,982	26,569	17,911	37,598	25,510	109,572	136,403
Less miscellaneous recoveries		969	528	719	82	26,608	20,533	28,296	21,143
Net operating cost		44,436	92,454	25,850	17,829	10,990	4,977	81,276	115,260

(a) Income earning turnover and operating expenditures on consolidation have each been reduced by an amount of $25,688,000 (last year $11,862,000) to eliminate intra-Forest Service transactions.

(b) A provision for income tax payable to the Inland Revenue Department of $3,968,000 ($3,003,000 last year) on sawmilling profits of $11,579,000 ($10,899,000 last year) is included in sawmilling and consolidated operating expenditures. Note 8(E)(2) states details.

NOTE 2.

Turnover — Production Forestry

	Exotic Production		Indigenous Production	
	1986 $(000)	*1984 $(000)*	1986 $(000)	*1984 $(000)*
Income Earning:				
Wood removals—				
Sales of logs	111,917	*62,810*	3,145	*1,978*
Sales of standing timber	34,038	*22,200*	6,646	*3,433*
Total wood removals	145,955	*85,010*	9,791	*5,411*
Other revenues	2,178	*1,434*	88	*63*
Total turnover	148,133	*86,444*	9,879	*5,474*

NOTE 3.

Operating Expenditures

	Exotic Production		Indigenous Production	
	1986 $(000)	*1984 $(000)*	1986 $(000)	*1984 $(000)*
Income Earning:				
Growing — exotics	9,037	*6,159*	–	–
Harvesting	54,553	*33,853*	2,866	*2,589*
Marketing				
Forest management	–	–	6,528	*4,400*
Total operating expenditures	63,590	*40,012*	9,394	*6,989*

NOTE 4.

Operating Expenditures

	Forestry Services	
	1986 $(000)	*1984 $(000)*
Non-income Earning:		
Protection, recreation and amenity management in State forests—		
Soil and water conservation	2,516	*2,612*
Management of reserve areas	1,132	*1,048*
Recreation and amenity	9,314	*7,408*
Miscellaneous protection	5,376	*397*
Total	18,338	*11,465*
Forestry Sector Responsibilities—		
Wild animal control	6,510	*5,250*
Rural fire prevention and control	716	*379*
Disease and insect prevention and control	1,344	*890*
Forestry encouragement and extension, including grants of $14,026,000 ($71,953,000 last year)	15,479	*72,864*
Forest products extension and quality control	1,121	*923*
External training	660	*341*
Forestry sector planning	1,103	*802*
Foreign aid	50	*34*
Governmental servicing	84	*34*
Total	27,067	*81,517*
Total Forestry Services	45,405	*92,982*

NOTE 5.

Funds Employed

			1986 $(000)	*1984 $(000)*
Funds employed at 1 January—				
sawmilling	39,801			*37,634*
forestry	993,461			*881,169*
total			1,033,262	*918,803*
Prior period adjustments — sawmilling			1,384	–
Decrease in revaluation reserve			(377)	
From Government			230,446	*176,116*
Operating surplus — sawmilling	9,667			*8,687*
Operating surplus — forestry production	85,028			*44,916*
Operating surplus — total			94,695	*53,603*
Net operating cost — non-income earning			(81,276)	*(115,260)*
Funds employed at 31 March—				
sawmilling	60,235			*39,801*
forestry	1,217,899			*993,461*
			1,278,134	*1,033,262*

NOTE 6.

Investments

	1986 $(000)	*1984 $(000)*
Shares in companies	51	*34*
Debentures — Tarawera Forest Ltd	526	*516*
Loans — forestry encouragement	13,874	*11,583*
	14,451	*12,133*

NOTE 7.

Fixed Assets — Forestry : 1986

	Land $(000)	Forest Crops-exotic $(000)	Roads and Bridges $(000)	Buildings $(000)	Plant and Vehicles $(000)	Other Assets $(000)	Total 1986 $(000)	Total 1984 $(000)
Cost—								
Balance at start of year	40,096	768,595	90,315	51,969	52,952	29,247	1,033,174	889,448
Additions	7,197	152,966(a)	9,297	3,883	16,335	8,215	188,856	143,726
Deletions		(9,037)(c)						
Balance at end of year	47,293	912,524	99,612	55,852	69,287	37,462	1,222,030	1,033,174
Depreciation—								
Provision at start of year			536	11,381	23,964	2,411	38,292	33,668
Provisions for year			54	1,380	4,270	6,797	12,501(d)	4,624
Provision at end of year			590	12,761	28,234	9,208	50,793	38,292
Net balance at end of year	47,293(b)	912,524	99,022	43,091	41,053	28,254	1,171,237	994,882

(a) Additions were represented by:		
Purchases	–	157
Establishment	38,617	34,404
Tending	44,844	28,083
Maintenance, protection, administration	69,505	53,077
	152,966	115,721

(b) Land is currently valued for forestry purposes at $518 million (last year $451 million).
(c) Refer to Note 3.
(d) Depreciation this year includes an extra $4.058 million as a result of a reappraisal of depreciation and assets.

NOTE 8.

Commercial Division — Sawmilling

THE FINANCIAL STATEMENTS OF THE COMMERCIAL DIVISION — SAWMILLING FOR THE 15 MONTHS ENDED 31 MARCH 1986

(A) *Statement of Accounting Policies — refer page 35 to 37*

(B) *Operating Statement*

	Notes(E)	1986 $(000)	*1984 $(000)*
Sales		83,259	*60,672*
Operating costs	(1)	71,680	*49,773*
Profit before income tax		11,579	*10,899*
Provision for income tax	(2)	3,968	*3,003*
Tax paid profit for year		7,611	*7,896*
Dividend	(3)	1,916	*1,049*
Retained profits		5,695	*6,847*

(C) *Statement of Financial Position*

	Notes(E)		1986 $(000)	*1984 $(000)*
Funds Employed:				
Government funds notionally represented by—				
Government funds			20,884	*7,152*
Accumulated profits	(6)		37,102	*30,023*
Total Government funds			57,986	*37,175*
Land revaluation reserve	(7)		1,699	*2,076*
Fire reserve			550	*550*
			60,235	*39,801*
Deferred tax	(2)		39	*1,423*
			60,274	*41,224*
Employment of Funds:				
Current Assets—				
Accounts receivable			12,705	*10,583*
Inventories	(4)		20,506	*14,487*
Total Current Assets			33,211	*25,070*
Less Current Liabilities—				
Accounts payable		5,773		*5,977*
Provision for tax	(2)	426		*2,170*
Provision for dividend		1,916		*1,049*
Total Current Liabilities			8,115	*9,196*
Excess of Current Assets over Current Liabilities			25,096	*15,874*
Plus Fixed Assets	(5)		35,178	*25,350*
			60,274	*41,224*

Notes (1) to (7) referred to above and that follow on pages 45 to 46 form part of the accounts and are to be read in conjunction with these financial statements in Note 8.

(D) *Statement of Changes in Financial Position*

	1986 $(000)	*1984 $(000)*
Funds were provided from:		
Government	13,732	–
Profit after tax	7,611	*7,896*
Adjustments not involving movement of funds—		
Disposal of fixed assets	110	*122*
Depreciation	2,819	*1,616*
Deferred tax	–	*369*
	24,272	*10,003*
Funds were applied to:		
Government	–	*4,680*
Purchase of fixed assets	13,134	*6,339*
Provision for dividend	1,916	*1,049*
Increase/(decrease) in working capital (refer below)	9,222	*(2,065)*
	24,272	*10,003*
Increase/(decrease) in working capital was reflected in—		
Accounts receivable	2,122	*3,462*
Inventories	6,019	*(1,411)*
Accounts payable	204	*(527)*
Tax payable	1,744	*(3,589)*
Dividends	(867)	–
	9,222	*(2,065)*

(E) *Notes to the Financial Statements of the Commercial Division — Sawmilling*

	1986 $(000)	*1984 $(000)*
(1) *Operating costs include:*		
Depreciation	2,819	*1,616*
Interest paid	2,056	*791*
Audit fees	45	*24*
Net gain on disposals of fixed assets	(158)	*(14)*
(2) *Tax Provision:*		
Profit before income tax	11,579	*10,899*
Income tax due	5,180	*4,905*
Add/(deduct) income tax effect of—		
Export incentive rebates	(1,142)	*(1,930)*
Other items	(70)	*30*
Overprovision in prior years	–	*(2)*
Income tax expense	3,968	*3,003*
The tax charge for the current year comprises:		
Current tax	3,968	*2,636*
Deferred tax	–	*369*
	3,968	*3,005*
Less overprovided in prior years	–	*2*
	3,968	*3,003*
The movements in the current tax provision are as follows—		
Tax payable/(refundable) as at 1 January	2,170	*(1,419)*
Tax paid/(tax refunds received)	2,205	*(1,421)*
Underprovision/(overprovision) in prior years	35	*(2)*
Tax payable for the year	3,968	*2,636*
Less provisional tax paid	3,503	*466*
Tax payable as at 31 March	465	*2,170*

(3) *Interest on Capital and Dividends:*

The Division pays dividends and interest.

Interest rates are determined by Treasury and are reviewed periodically. The current interest rate is 16 percent per annum.

The 15 months tax paid profit has enabled the Division to declare a dividend of 4.5 percent on the opening balance of the Public Equity.

	1986 $(000)	*1984 $(000)*
(4) *Inventories*		
Trading stocks	17,861	*11,597*
General stores	2,645	*2,890*
Total	20,506	*14,487*

(5) *Fixed Assets*

	At Cost or Valuation		*Accumulated Depreciation*		*Book Value*	
	1986 $(000)	*1984 $(000)*	1986 $(000)	*1984 $(000)*	1986 $(000)	*1984 $(000)*
Land	2,114	*2,108*	–	–	2,114	*2,108*
Buildings and improvements	11,117	*9,135*	3,047	*2,410*	8,070	*6,725*
Plant, machinery and equipment	27,597	*23,812*	11,088	*10,074*	16,509	*13,738*
Assets not in use	240	–	226	–	14	–
Assets not completed	8,471	*2,779*	–	–	8,471	*2,779*
	49,539	*37,834*	14,361	*12,484*	35,178	*25,350*

(6) *Prior Period Adjustment*

The opening balance of retained profits has been adjusted by a net amount of $1,384,000 being the provision for Deferred Tax.

	$(000)
Accumulated profits	30,023
+ Prior period adjustment	1,384
	31,407

(7) *Land Revaluation Reserve*

This has been adjusted by $382,000. This adjustment relates to a previous over valuation of land.

REPORT OF THE AUDIT OFFICE

The Audit Office, having been appointed in terms of section 97, Public Finance Act 1977, has audited the financial statements of the New Zealand Forest Service.

The audit was conducted in accordance with generally accepted auditing standards and practices.

In the opinion of the Audit Office, the financial statements appearing on pages 35 to 46 fairly reflect the financial position as at 31 March 1986 and the financial results of operations for the 15 months ended on that date.

D. L. Ormsby,
Assistant Controller and Auditor-General.

15 September 1986.

FINANCIAL AND STATISTICAL HIGHLIGHTS 5 CALENDAR YEARS

	15 months Mar. 1986 $ million	Dec. 1984 $ million	Dec. 1983 $ million	Dec. 1982 $ million	Dec. 1981 $ million
FOREST SERVICE					
Production forestry and sawmilling—					
Turnover	215.58	140.73	108.5	106.4	102.7
Operating surplus	94.70	53.60	29.0	30.0	30.6
Forestry Services, Research and Administration — Net operating cost	81.28	115.26	47.7	44.3	39.0
Total assets employed	1,297.10	1,086.44	936.1	799.5	669.1
Funds employed	1,282.35	1,033.26	918.8	787.0	657.7
Working capital	58.57	2.32	32.5	34.8	31.7

	1986 $(000)	1984 $(000)	1983 $(000)	1982 $(000)	1981 $(000)
SAWMILLING					
Turnover—					
Export	24,092	20,911	15,835	12,488	13,369
Domestic	59,167	39,761	30,258	31,595	30,508
Total	83,259	60,672	46,093	44,083	43,877
Total remuneration to employees	26,422	18,983	16,501	16,821	15,910
Tax paid profit	7,611	7,896	4,210	4,747	5,846
Dividend	1,916	1,049	1,049	1,049	1,049
Retained profits	5,695	6,847	3,162	3,698	4,797
Total assets	68,389	50,420	45,187	41,488	34,850
Working capital	25,096	15,874	17,939	17,025	12,769
Net funds employed	60,274	41,224	37,634	34,538	27,131
Production — cubic metres	284,912	229,788	193,536	199,885	216,406
Total personnel employed at end of period	881	856	831	824	863
Percentage of profits retained	75	87	75	78	82

	1986 $ million	1984 $ million	1983 $ million	1982 $ million	1981 $ million
PRODUCTION FORESTRY					
Exotic Production:					
Turnover	148.13	86.44	65.94	64.81	61.45
Operating Surplus	84.56	46.43	25.59	25.41	25.24
Indigenous Production:					
Turnover	9.88	5.47	4.66	5.65	4.33
Operating Surplus (Deficit)	0.49	(1.52)	(1.64)	(0.61)	(0.83)
Cost of forest crops — exotics	912.5	768.60	659.03	556.08	461.29
Cost of additions to forest crops — exotics	153.0	115.72	109.21	102.31	93.55
Wood removals — exotics					
Sales of logs — (000) m^3	2,716	1,987	1,770	1,949	1,928
Sales of standing timber (000) m^3	2,955	2,567	2,385	2,608	3,102
Total exotics — (000) m^3	5,671	4,554	4,155	4,557	5,030
Derived net stumpage — exotics (mean) $/m^3$ (after deducting harvesting and marketing costs)	16.35	11.23	7.51	7.13	6.17
Tree crop — exotics					
Planting and restocking — ha	29,488	29,618	29,097		
Thinning without wood removals — ha	60,149	48,063	45,838		
Pruning — ha	89,380	75,236	63,653		
Topdressing — ha	15,928	17,622	14,062		

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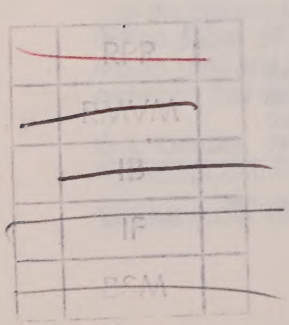
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